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ANNUAL REPORT



Red Owl Stores, Inc.

1950 * 1951

Best Marwick Minkhoff & Co.

Twenty-ninth Annual Report

RED OWL STORES, INC.

GENERAL OFFICES • HOPKINS, MINN.

BOARD OF DIRECTORS

FORD BELL	<i>Wayzata, Minn.</i>
ALF L. BERGERUD	<i>Minneapolis, Minn.</i>
J. C. CORNELIUS	<i>Minneapolis, Minn.</i>
JOHN Y. DEAR	<i>Minneapolis, Minn.</i>
GLENN R. GRIFE	<i>Minneapolis, Minn.</i>
RICHARD L. KOZELKA	<i>Minneapolis, Minn.</i>
J. F. RINGLAND	<i>Minneapolis, Minn.</i>
HENRY C. STEPHENSON	<i>Minneapolis, Minn.</i>
H. J. WORRELL	<i>Minneapolis, Minn.</i>

OFFICERS

FORD BELL	<i>President</i>
GLENN R. GRIFE	<i>Executive Vice President</i>
ALF L. BERGERUD	<i>Vice President</i>
JOHN Y. DEAR	<i>Vice President</i>
W. C. METZGER	<i>Vice President</i>
H. J. WORRELL	<i>Vice President</i>
HENRY C. STEPHENSON	<i>Treasurer and Asst. Secy.</i>
J. T. SYDNESS	<i>Secretary and Asst. Treas.</i>
RICHARD H. WHITE	<i>Assistant Secretary</i>
F. D. SCOTT	<i>Controller</i>



Executive Offices: 215 E. Excelsior Avenue, Hopkins, Minn.—Mailing Address: Post Office Box 1128, Minneapolis, Minn.—Stock Transfer Agent: Northwestern National Bank of Minneapolis.—Auditors: Peat, Marwick, Mitchell & Co.

THE YEAR'S WORK

We received from the sale of goods and services \$78,121,079

We paid for merchandise, transportation, handling costs, rents, maintenance, and general operating expenses other than payrolls 68,119,344

We paid to our employees in wages and salaries, and for other employee benefits including social security, retirement income, and group insurance 7,378,671

We set aside for depreciation of buildings and equipment 465,481

We set aside for federal and state income taxes 1,111,000

This left us as earnings 1,046,583

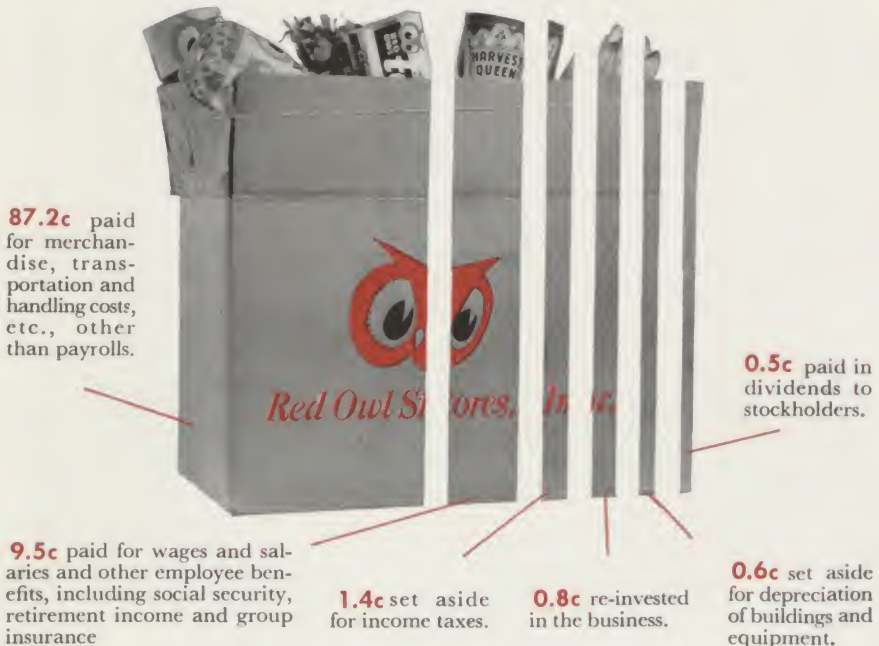
Out of these earnings

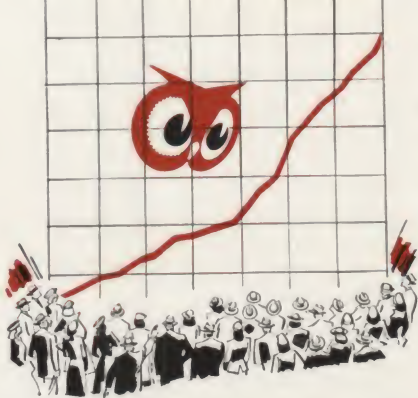
We paid to our preferred stockholders as dividends . . \$ 68,178

We paid to our common stockholders as dividends . . 355,174

And we reinvested in the business 623,231

HOW THE SALES DOLLAR WAS DIVIDED





To the stockholders and employees of Red Owl Stores, Inc.

Once again your Company, in its 29th year, enjoyed a year of steady growth, both in sales and in earnings before taxes on income. This growth is, in part, of course, a reflection of certain price increases, but it is also a reflection of continued customer satisfaction with Red Owl Stores.

Our sales and our earnings before taxes on income were the highest in the Company's history. It should be noted that these records were achieved in the face of considerably increased costs of doing business: Our federal and state taxes are at the highest point they have ever been, and our costs for necessary new equipment for stores and for transportation have made it necessary for us to set aside larger amounts than ever for depreciation. However, at the same time, our preferred stockholders received the regular dividend of \$4.75 per share, and our common stockholders received 15 cents per share in the first quarter of the year and 25 cents per share in each of the last three quarters—a total of 90 cents per share. This was the 17th consecutive year in which our stockholders have received dividends on their stock.



SALES

During the year ending February 26, 1951, sales of our goods and services totaled \$78,121,079, an increase of \$8,425,308, or 12.1% over the previous year. This increase resulted from a gain in retail sales as well as in sales at wholesale. Retail sales were \$55,359,134, a gain of 8.9%;

sales at wholesale were \$22,761,945, an increase of 20.6% over the previous year. The increase in retail sales is attributable in some part to a general volume and price rise, but also in part to the opening of new super markets in four Minnesota communities—Hibbing, Grand Rapids, St. Anthony, and Richfield. The increase in sales at wholesale was, again, due partly to the general volume and price increase, and also to the opening of several new accounts.



EARNINGS

Consolidated earnings for the year, after taxes, were \$1,046,583, compared to \$1,057,085 (before special credit of \$133,147) for the previous year. Based on shares outstanding at the close of the year, earnings were \$2.41 per share of common

stock after meeting preferred stock requirements, compared with \$2.52 (before special credit) for the previous year. During the year, 2,112 shares of preferred stock were converted to common stock, in accordance with the terms of issue. This resulted in an increase in the outstanding common stock from 390,620 shares to 405,154 shares at the close of the year. Earnings this year amounted to $1\frac{1}{3}$ cents of each sales dollar for the year, as against $1\frac{1}{2}$ cents the previous year. This reduction was due to the increased taxes mentioned above, and to the Company's continuing policy of absorbing some of the increased costs of doing business in order to help its customers meet the rising costs of living.

DIVIDENDS

For the use of the money our stockholders have invested in the Company, \$423,352 was returned to them in dividends during the year. Holders of preferred stock received \$68,178—\$4.75 per share—on their stock, and holders of common stock received \$355,174—90 cents per share. Again, we believe it is significant that our employees received almost \$17 in salaries and wages for every \$1 returned to stockholders.



PERSONNEL

Employees of the Company received \$7,029,690 in wages and salaries in the last year, or about 9c of every \$1 we received from merchandise sold. This \$7,029,690 was distributed among more than 2,000 full-time and 550 part-time people. 2,043 Red Owl people and their families participated in the Group Insurance and Hospitalization Plan. During the year the plan was amended to provide added benefits.



During the year, 189 men and women left the Company to enter the armed forces. Those who were eligible have been paid separation bonuses averaging \$162 each, depending on their length of service with Red Owl. In addition, their group life insurance is continued until they obtain National Service Life Insurance, and their dependent insurance coverage is maintained by the Company for a period equal to their length of service with Red Owl Stores, Inc. Pension benefits continue as if the serviceman is still employed by the Company, with annual contributions made to his pension account while he is in the service.

A new training program was installed jointly by the Retail Operations and Personnel Departments to expedite training of qualified individuals for the objectives of store and market management. Thus, more people are being trained for better jobs and the Company, in turn, is strengthened by more expert leadership in the field organization.

DIRECTORS

All nine members of the previous year's Board of Directors were re-elected. As was noted in last year's report, six of the nine directors are officers of the Company and men of many years' experience in the food business, while three are men of considerable experience who bring to the Board valuable contributions gained from their own business backgrounds.

RED OWL OFFICERS



FORD BELL



GLENN R. GRIFE



ALF L. BERGERUD



JOHN Y. DEAR



W. C. METZGER



H. J. WORRELL



HENRY C.
STEPHENSON



J. T. SYDNESS



RICHARD H.
WHITE

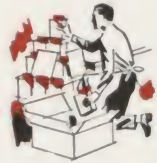


F. D. SCOTT

MERCHANDISING

During the year, several public attitude studies were made at selected locations to determine what the customer likes and dislikes about food stores. With these findings in mind, the Company has continued to modernize and improve its present stores to furnish its customers the type of facilities and store operations they prefer and will patronize.

In order to insure customer acceptance and the greatest inventory turnover at the stores, a merchandising committee, composed of representatives of the procurement, promotional, and selling departments, is constantly sampling new items and studying our stock position on regular merchandise.



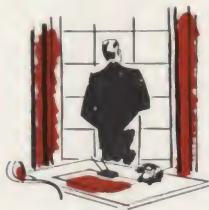
Most significant in the Company's development during the year has been its entry into the Minneapolis suburban area and the Minnesota iron range territory with outstanding super-markets. Also, the Company has further extended its self-service meat operations and now has nine such complete departments.

In spite of restrictions and controls, the Company proposes to maintain and, wherever possible, improve its merchandising stand-

ards to furnish its customers maximum quality at competitive prices.

At the close of the year, the Company operated 181 corporate stores, nine less than a year ago, and serviced 546 agency stores, ten more than a year ago.

THE FUTURE



It is the policy of the Company to reinvest a substantial part of its earnings each year for growth and modernizing purposes to provide financial security for the Company and job security for its personnel. Subject to probable government restrictions, we are planning a five-year development program which contemplates the addition of 34 new super-markets, approximately 150 remodelings, a new warehouse at Green Bay, Wisconsin, and the expansion of trucking facilities to meet these requirements. This will require expense control, greater emphasis on budgeted operations, and added working capital which will, in all probability, be provided through long-term borrowing. Negotiations for such borrowing to the extent of \$3,000,000 are now underway with the loan department of an insurance company. If successfully concluded, the proceeds will be used to retire the remaining balance of the present long-term debt and existing bank loans, and to provide the additional working capital needed to carry the present and projected volume of sales.

In the years to come, it is our desire to continue to serve our customers well by keeping pace with, and, whenever possible, taking the lead in, developments in the retail and wholesale food industry.

A large, stylized handwritten signature in black ink, reading "Jay Bell".

PRESIDENT

STATEMENT OF OPERATIONS AND EARNINGS REINVESTED IN BUSINESS

Red Owl Stores, Inc. and Subsidiary Companies

For the year ended February 26, 1951 (with comparative figures for the previous year)

	Year Ended	
	Feb. 26, 1951	Feb. 27, 1950
Net retail sales.....	\$55,359,134	50,822,144
Net wholesale sales.....	22,761,945	18,873,627
Gain on sale of property and equipment, excluding warehouse property in 1950 shown separately below.....	18,965	39,060
Other income (net).....	22,526	12,003
Total Gross Revenue.....	78,162,570	69,746,834
Costs:		
Cost of goods sold, including warehousing and transportation expenses (note 5).....	66,690,805	59,286,067
Selling, general and administrative and other operating expenses (notes 4 and 5).....	9,266,431	8,626,866
Interest:		
On long-term debt.....	38,667	42,000
Other.....	9,084	16,224
Provision for income taxes (excluding \$59,050 applicable to gain on sale of warehouse property in 1950 shown separately below):		
Federal, including in 1951 provision for Federal excess profits taxes, \$120,000...	1,021,000	648,499
State.....	90,000	70,093
Total Costs.....	77,115,987	68,689,749
Earnings for year, before special credit in 1950	1,046,583	1,057,085
Special credit—gain on sale of warehouse property, less related income taxes, \$59,050.....	—	133,147
Earnings for year, after special credit in 1950...	1,046,583	1,190,232
Deduct Dividends on Red Owl Stores, Inc., capital stock:		
4 ³ / ₄ % cumulative preferred stock, Series A...	68,178	71,250
Common stock—\$.90 and \$.50 per share in respective years.....	355,174	195,310
	423,352	266,560
Earnings for year reinvested in business.....	623,231	923,672
Balance of earnings reinvested in business at beginning of year.....	3,666,729	2,743,057
Balance of earnings reinvested in business at end of year (note 3).....	\$ 4,289,960	3,666,729
Charges for depreciation and amortization of fixed assets and leasehold improvements included in costs above.....	\$ 545,772	525,414

See accompanying notes to financial statements.

STATEMENT OF FINANCIAL POSITION

Statement of Financial Position as of February 26, 1951
(with comparative figures for the previous year)

ASSETS

	Feb. 26, 1951	Feb. 27, 1950
CURRENT ASSETS:		
Cash in banks and on hand.....	\$ 1,214,055	1,012,844
United States Government securities, at cost.....	9,037	9,037
Accounts receivable:		
Customers.....	778,145	688,805
Due from vendors, claims, etc.....	177,865	164,587
	956,010	853,392
Less allowance for doubtful accounts...	94,173	92,897
	861,837	760,495
Merchandise inventories, less \$285,000 reserve (note 1).....	6,395,906	4,777,289
Prepaid expenses.....	214,627	123,948
Total Current Assets.....	8,695,462	6,683,613
CASH SURRENDER VALUE OF LIFE INSURANCE.....	26,908	22,966
PROPERTY, PLANT AND EQUIPMENT		
—at Cost:		
Land.....	183,771	146,723
Buildings.....	126,723	132,807
Furniture, fixtures and equipment.....	3,388,024	2,907,019
Automotive equipment.....	1,318,201	937,229
	5,016,719	4,123,778
Less depreciation.....	1,973,113	1,706,007
	3,043,606	2,417,771
Leasehold improvements, at cost, less amortization.....	990,513	1,029,340
	4,034,119	3,447,111
OTHER ASSETS.....	54,061	56,348
	<u>\$12,810,550</u>	<u>10,210,038</u>

Red Owl Stores, Inc. and Subsidiary Companies

LIABILITIES

	Feb. 26, 1951	Feb. 27, 1950
CURRENT LIABILITIES:		
Notes payable:		
Current instalments of long-term notes. \$	100,000	100,000
Demand notes due to banks.	300,000	—
	<u>400,000</u>	<u>100,000</u>
Accounts payable.	2,604,085	1,417,858
Dividend payable on preferred stock.	15,192	17,812
Accrued expenses.	550,378	379,905
Provision for income and excess profits taxes	<u>1,145,185</u>	<u>721,525</u>
Total Current Liabilities.	4,714,840	2,637,100
LONG-TERM 4% NOTES PAYABLE due November 1, 1959, payable in annual instalments of \$100,000 each commencing November 1, 1952, exclusive of current instalment set forth above (note 3)	800,000	900,000
STOCKHOLDERS' EQUITY:		
Capital Stock (notes 2 and 3):		
Preferred stock—par value \$100 per share:		
Authorized 25,000 shares, issued and outstanding at respective dates, 12,888 and 15,000 shares, 4 $\frac{3}{4}$ % cumulative, Series A	1,288,800	1,500,000
Common stock—par value \$3 per share:		
Authorized 750,000 shares, issued and outstanding at respective dates, 405,154 and 390,620 shares.	<u>1,215,462</u>	<u>1,171,860</u>
	2,504,262	2,671,860
Additional amounts paid in by stockholders, less expenses in connection with stock issue (including, in current year, \$167,139 arising from conversion of preferred stock) (note 2)	501,488	334,349
Balance of earnings reinvested in business, per accompanying statement (note 3)	<u>4,289,960</u>	<u>3,666,729</u>
	4,791,448	4,001,078
Long-Term Lease Commitments (note 5)		
	<u>\$12,810,550</u>	<u>10,210,038</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

Red Owl Stores, Inc. and Subsidiary Companies

1. Merchandise inventories at retail stores and two principal warehouses are based on book inventories adjusted to physical counts taken from time to time during the year in the case of the retail stores and on a continuous basis in the case of the two principal warehouses; other inventories are based on year-end physical counts. The inventories are stated at cost (first-in, first-out basis) determined in the case of the retail stores by the application of mark-up percentages to retail book inventories.

2. The 4¾% cumulative preferred stock, Series A, is redeemable on call and on voluntary liquidation at \$107 per share to January 1, 1952, \$106 per share from that date to January 1, 1957, and \$105 per share thereafter, plus dividends accrued or in arrears to the redemption date. Shares of such preferred stock (taken at \$100 per share) are convertible into common stock at \$14.50 per share to December 31, 1952, \$16.00 per share from January 1, 1953 to December 31, 1954 and \$18.00 per share from January 1, 1955 to December 31, 1956 (at which date conversion privileges expire).

In connection with the foregoing, 88,883 shares of authorized and unissued common stock are reserved for issuance upon conversion of preferred stock. The conversion prices are subject to adjustment in certain instances specified in the "Certificate of the Designations, Preferences and Relative, Participating, Optional or Other Special Rights of the 4¾% Cumulative Preferred Stock, Series A, of Red Owl Stores, Inc.," which also sets forth certain restrictions on the issuance of additional shares of preferred stock, increase of funded debt and sale of property.

3. Certain restrictions are placed upon payment of dividends (except stock dividends) and purchase, redemption or retirement of capital stock under the terms of the agreement relating to the 4% serial notes dated November 1, 1944; the amount available for such distribution at February 26, 1951 was \$2,519,459. In view of the foregoing, like restrictions under the preferred stock requirements of the certificate of incorporation as amended, and Board of Directors' resolution authorized thereunder, are not applicable.

The note agreement also provides that the long-term debt may be prepaid at the option of the company at varying premiums and among other conditions, sets forth certain working capital requirements, which were maintained at February 26, 1951.

4. Selling, general and administrative and other operating expenses include other employee benefit costs as follows:

	Year Ended	
	Feb. 26, 1951	Feb. 27, 1950
Officers and employees profit sharing.....	\$240,000	110,000
Pension premium costs.....	167,375	119,672

Payment of current year profit-sharing has been withheld pending government approval, except for \$130,000 paid according to previously established plan; on April 26, 1951 government wage stabilization authorities ruled that payment of the balance (except for a relatively minor amount requiring specific approval) may be made under existing regulations. The retirement pension plan, approved

by stockholders and effective February 26, 1945, is qualified under the Internal Revenue Code and provides retirement benefits for eligible employees. The entire cost of the plan is borne by the company and past service costs approximating \$161,000 are being amortized over a ten-year period. While the company reserves the right to discontinue the plan (in which event all premiums paid inure to the benefit of employees), its continuance is anticipated.

5. Rent expense included in costs for the years ended February 26, 1951 and February 27, 1950 amounted to \$706,824 and \$666,860 for the respective periods. The approximate minimum annual rentals under 76 leases expiring beyond February 28, 1954 are \$496,000, of which 56 leases with annual rentals of \$139,000 expire within five years, and 3 leases with annual rentals of \$174,000 have terms extending beyond twenty years from that date. These amounts exclude maintenance costs, real estate taxes, insurance, etc., which are paid in accordance with the terms of most warehouse leases and certain store leases.

ACCOUNTANT'S REPORT

PEAT, MARWICK, MITCHELL & CO.

To the Board of Directors,
Red Owl Stores, Inc.,
Hopkins, Minnesota.



We have examined the statement of financial position of Red Owl Stores, Inc. and subsidiaries as of February 26, 1951 and the related statement of operations and earnings reinvested in business for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

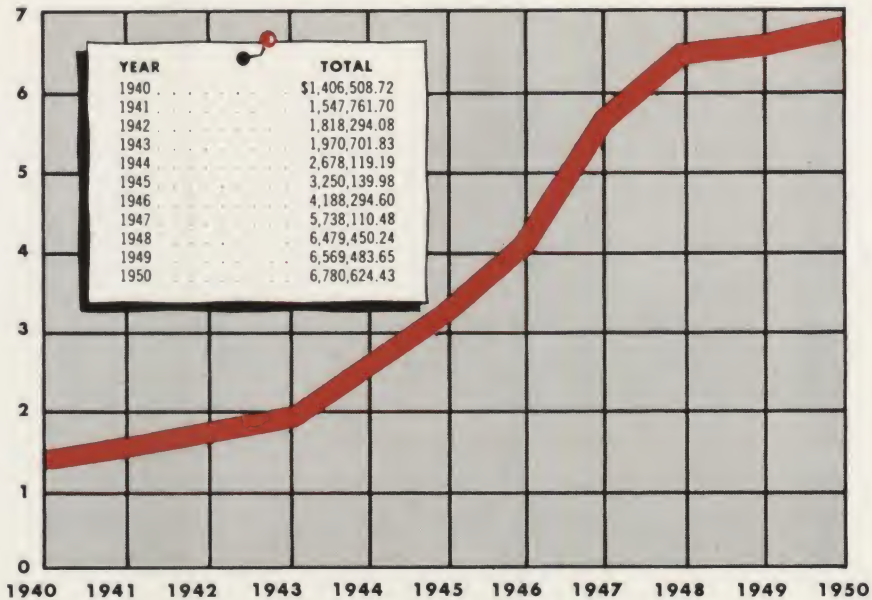
In our opinion, the accompanying statement of financial position and related statement of operations and earnings reinvested in business present fairly, on a consolidated basis, the financial position of Red Owl Stores, Inc. and subsidiaries at February 26, 1951 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.

Minneapolis, Minnesota.
May 7, 1951.

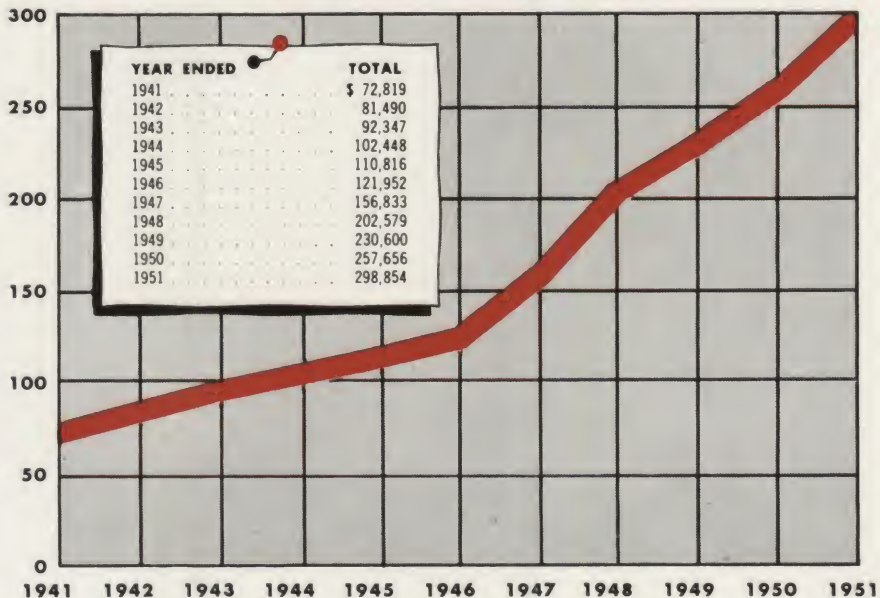
SALARIES AND WAGES

Calendar Years Ended December 31, 1940-1950



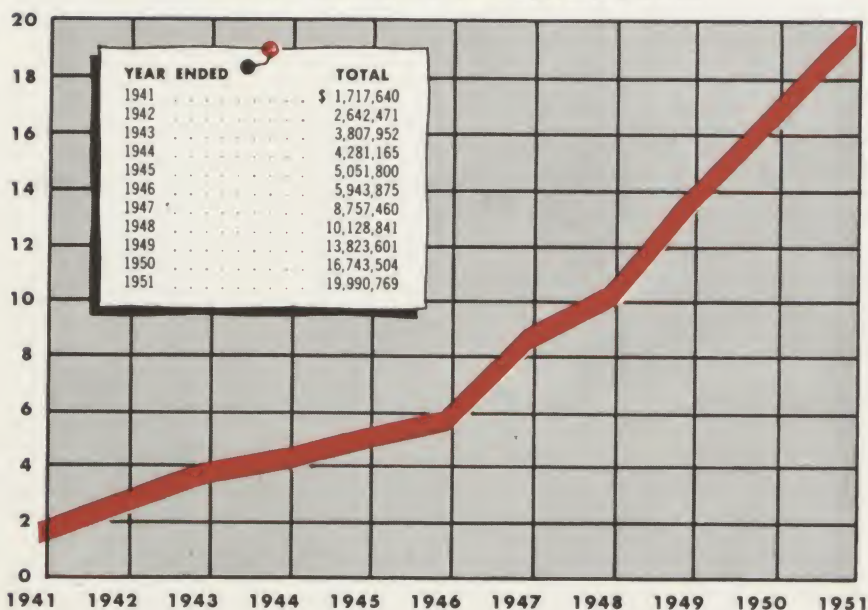
AVERAGE RETAIL SALES PER LOCATION

Fiscal Years Ended March 3, 1941 through February 27, 1951



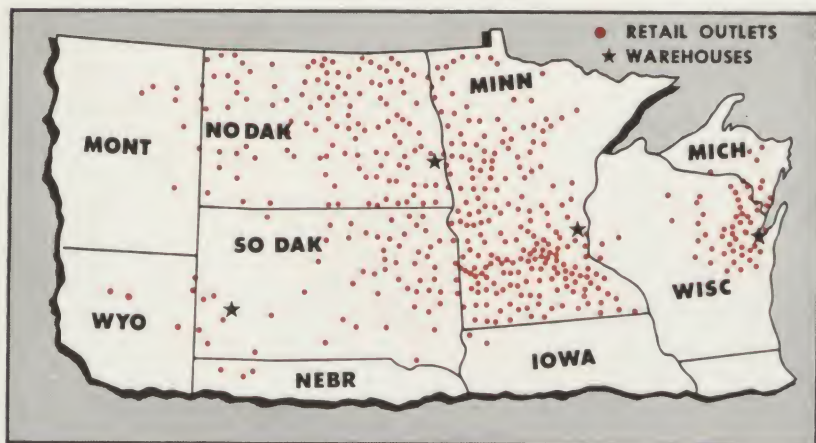
SALES TO AGENCY STORES

Fiscal Years Ended March 3, 1941 through February 27, 1951



FACILITIES MAP

Location of Red Owl Stores



RED OWL now operates 181 corporate retail stores in nine states, with the bulk of them in Minnesota, the Dakotas, and Wisconsin. In addition, there are now 546 agency stores in the same area, 10 more than a year ago.

*For further information about the
activities and policies of Red Owl
Stores, please feel free to write to...*



RED OWL STORES, INC.

HOPKINS, MINNESOTA